HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Calgary CMA

Canada Mortgage and Housing Corporation

Date Released: Spring 2008

NEW HOME MARKET

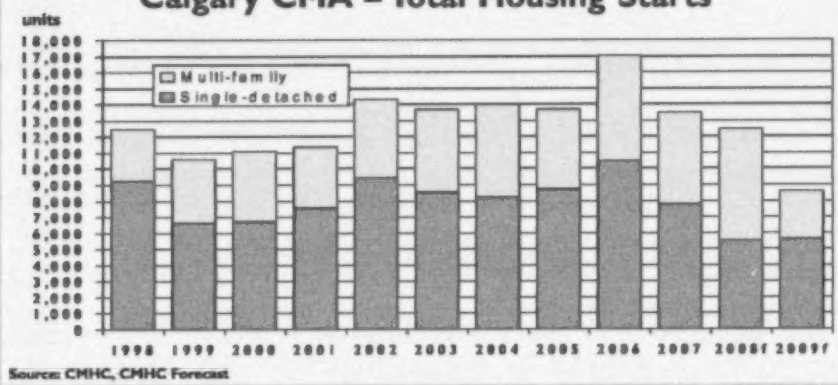
Multi-family Surges as Single-detached Construction Retrenches

The Calgary CMA is experiencing a rapid expansion in large tower condominium projects and as a result new multi-family construction has begun the year at the fastest first quarter pace on record. At the end of the first quarter, the number of units pending construction (i.e. building permits approved but not yet started) amounted to over 5,400 multi-family units. To recognize the likelihood of a higher level of multi-family construction, CMHC has revised its multi-family forecast to 7,000 units, up 22 per cent from production in 2007.

While multi-family units are increasing this year, new single-detached construction is being cut to respond to current market conditions that favour buyers. Single-detached starts are projected to reach 5,500 units in

Figure 1

Calgary CMA – Total Housing Starts



Source: CMHC, CMHC Forecast

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2008, down 29 per cent from 2007. As a result, total housing starts are forecasted to tally 12,500 units in 2008, decreasing by seven per cent from 2007. In 2009, total starts are forecasted to drop by 31 per cent to 8,600 units, primarily because the surge in multi-family construction this year will necessitate a lower level of multi-family construction in 2009.

In 2008, housing starts will continue to be impacted by a high level of competition from the resale market. Demand will also be lower as net migration moderates and buyers respond to past price escalation. Builders will respond to rising inventories by reducing new spec home construction. By 2009, demand and supply is expected to become more balanced and price stability will improve consumer confidence and affordability, and this should spur new home sales. Single detached starts are forecasted to rise modestly in 2009 to 5,600 units.

More uncertainty exists in the multi-family market. In this year's market conditions that favour buyers, the exuberant pace of multi-family starts has expanded construction in a market place that is already well supplied. To move the condominium market into a more balanced environment will require a significant increase in demand which is not forecasted, or supply to be astutely managed. Otherwise, a price adjustment will be the equilibrating factor. If the high level of new multi-family continues in 2008 as forecasted, the supply adjustment will not occur until 2009. Multi-family starts are forecasted to drop from 7,000 units in 2008 to 3,000 units in 2009, representing a 57 per cent decrease. Despite the retrenchment in 2009, the forecast period will still mean a high level of new multi-family construction over the two years as an average of 5,000 units per year will have been started.

Multi-family High in 2008 to be Offset in 2009

The high level of total housing starts this year is primarily because of a surge in high-rise apartment condominium construction. Multi-family starts, which include semi-detached units, rows and apartments, have totalled 3,589 units to the end of March. This is a record for a first quarter production and is up 240 per cent from first quarter of 2007. The 3,130 apartment units started in the first quarter of 2008 is already at 93 per cent of the 3,366 unit annual apartment total for 2007, primarily due to an increase in the number of multi-tower high-rise apartment condominium developments. The other components of multi-family construction, semi-detached and row units are both lower by 17 and 16 per cent, respectively, relative to first quarter 2007.

The very high level of apartment condominium starts this year has escalated the number of multi-family units under construction to a record 11,370 units in March, up 39 per cent from the previous year. The level of multi-family supply is expected to peak in 2008 with the surge in new starts before easing as completions rise. Multi-family units under construction will remain elevated in 2009 as many of the large condo towers started in 2008 will take approximately two years to complete.

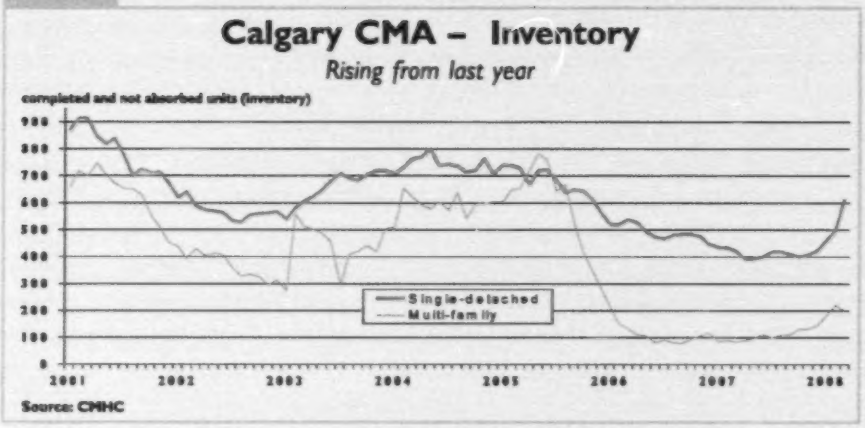
Year-to-date March, completions have amounted to 1,829 units while 1,709 units were absorbed. The inventory of completed and unabsorbed multi-family units in March consisted of 120 semis, 16 row and 65 apartment units. The inventory level in the first quarter of 2008 has averaged over 200 units, about double the level of the first quarter of 2007. Considering the record number of units under construction and current market conditions that favour buyers, inventory levels are likely to rise in 2008, remain elevated in 2009 with a potential to peak after the forecast period in 2010.

Single-Detached Starts Down

Single-detached starts continue to be impacted by a high level of competition from the resale market, the rapid price escalation from previous years, and weaker net migration. Rising inventories are also a contributing factor leading to lower production. After one quarter, single-detached starts have amounted to 1,067 units, down almost 38 per cent from the first quarter of 2007.

The drop in single-detached starts has contributed to a lower level of construction activity this year. At the end of March, there were 3,888 single-detached units under construction, down 37 per cent from a year earlier, and to a level that approximates the average monthly construction activity in 2005. In

Figure 2



March, 729 single-detached units were completed while 614 units were absorbed. As a result, inventory rose by 115 units to 613 completed and unabsorbed units, up 46 per cent from a year earlier. The inventory of 613 units consisted of 371 show homes and 242 spec homes, the highest number of spec units in inventory since May 2005. Slower new home sales, rising inventories, competition from the resale market, and unstable pricing has been a sign for builders to cut production. The pull-back of construction in 2008 should ensure inventories are managed appropriately, and allow for some growth in starts in 2009.

In the Calgary CMA, the average absorbed price of a single-detached house was $561,659 in March, up almost 33 per cent from the average reported in March 2007. While the average absorbed price reflects new home prices absorbed in March, it should be noted that the price pressures reflect those from an earlier period, as the price was likely negotiated before construction began. Twelve months ago, the annual gain to Calgary's New Home Price Index was sitting at 38 per cent, but has since moderated substantially. Currently, new home prices are under pressure from intense competition created by weaker demand, heightened inventories, and huge competition from the resale market. By year-end, when builder incentives are factored into the average price, the average absorbed price of a single-detached home is forecasted to be $550,000, up almost 16 per cent from the $474,512 reported in 2007. As the market moves into more balanced conditions in 2009, price growth will be in the single digits taking the average absorbed price to $564,000.

RESALE MARKET

Favours Buyers as Listings Continue to Soar

Resale market conditions during the first quarter of 2008 clearly favoured buyers. Active listings increased to a record high while demand has been cut by over a third. After one quarter, total MLS® sales in the Calgary CMA amounted to 6,354 units, down 36 per cent from the first quarter of 2007.

Sales of single-detached and condominium units have both been lower in 2008 as compared to 2007. Year-to-date, single-detached sales are down 31 per cent while condominium sales have dropped by 47.5 per cent compared to their respective sales in the first quarter of 2007. Weaker net migration has reduced demand as has the movement in real estate prices. From August to De-

Figure 3

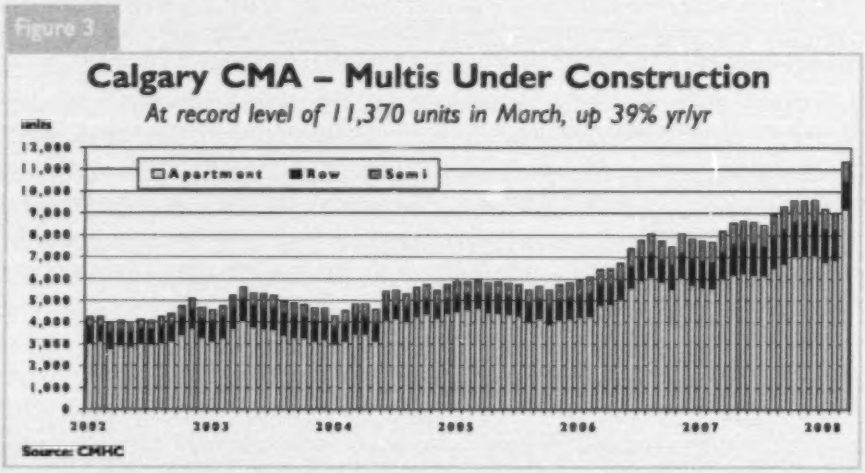


Figure 4

cember, average resale prices have declined, picking up only since the start of the year. With March's average price still below the peak level experienced in July 2007, the opportunity for speculative transactions has been cut. Speculative demand, a feature prevalent in Calgary's resale market in 2006 and the first half of 2007, has essentially evaporated.

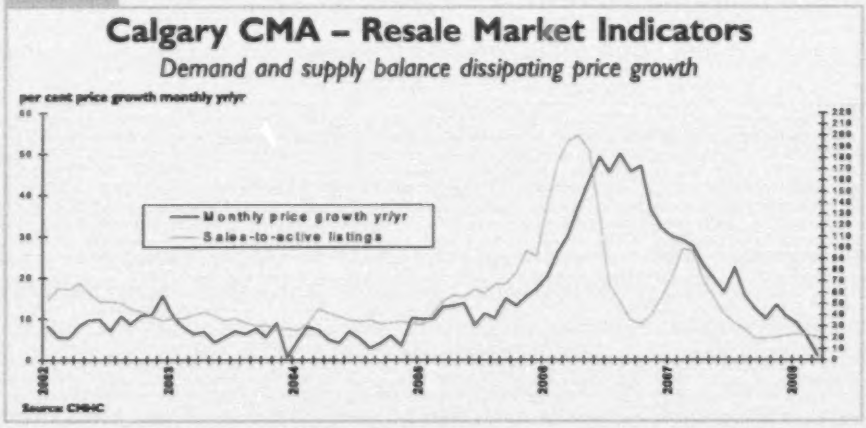
A very high level of supply and recent price reductions has reduced the sense of buying urgency among potential homeowners and this has significantly increased the time to sell a home and delayed sales transactions. Total active listings in the Calgary CMA reached a record 11,350 units in March 2008, up 180 per cent from March 2007. New listings have grown by almost 30 per cent in the first quarter, year-over-year as buyers of new homes are listing their existing units now that they are approaching possession. With price growth grinding to a halt, earlier speculators are now looking to sell their properties as well. The rapid increase in supply and decrease in demand has moved active listings to its current record high.

The supply and demand imbalance is creating uncertainty and a re-pricing of real estate. For the Calgary CMA, the total average resale price was $419,396 in March 2008, up less than one per cent from March 2007. It should be noted that the March 2008 average price was below those reported from April 2007 to August 2007. As a result, the year-over-year monthly price comparison will likely be negative in the coming months. Year-to-date, the total average price of $414,838 is 4.4 per cent higher than the first quarter average of 2007. By year-end, the total average price in 2008 is projected to reach $429,000, only 3.6 per cent higher than 2007. Once listings moderate by 2009, the resale market is expected to move out of buyers' market conditions and become more balanced. Nonetheless, price growth in 2009 will be limited. The total average resale price in 2009 is forecasted to rise to $450,000, up 4.9 per cent from 2008.

It should also be noted that some of the price growth in the total average calculation can be attributed to a rise in relatively more single-detached units calculated in the average as compared to lower priced condominium units. In the first quarter of 2007, single-detached homes represented 69.6 per cent of total sales. During the first quarter of 2008, single-detached homes accounted for 75 per cent of total sales.

For single-family homes in the Calgary CMA, the average price was $452,746 in March 2008, below the

Figure 5



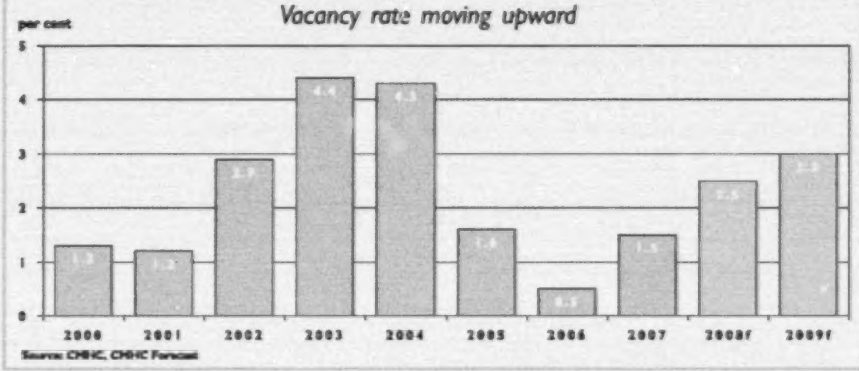
$460,424 average reported for March 2007 by 1.7 per cent. Meanwhile, the condominium average price of $312,620 for March 2008 was 1.4 per cent higher than a year earlier but still lower than the peak of $332,237 reported in May 2007.

The outlook for this year is for market conditions to continue favouring buyers until supply is brought down to be more aligned with demand. This will be a very challenging year for housing market participants as the market place has become very competitive. Total MLS® sales in the Calgary CMA are forecasted to decline by 19 per cent from the 32,177 sales in 2007 to 26,000 sales in 2008. As the market moves into more balanced conditions in 2009, a modest rebound in sales is expected as stable prices boost homebuyer confidence and affordability. Total MLS® sales are forecast to reach 26,750 units in 2009, a rise of 2.9 per cent from 2008.

Figure 6

Calgary CMA – Apartment Vacancy Rate

Vacancy rate moving upward



Source: CMHC, CMHC Forecast

RENTAL MARKET

More Choice for Renters

Net migration to the Calgary CMA has been revised downward since the last forecast. Although Calgary's migration numbers for 2007 have yet to be released, it is expected that Calgary contributed to the negative inter-provincial migration Alberta experienced during the second half of 2007. The lower level of net migration will continue to impact demand for rental accommodations in 2008 and 2009.

In 2006, Calgary experienced a record level of net migration and this was a dominant factor pushing Calgary's rental vacancy rate to a record low 0.5 per cent. Since then, vacancy rates have been rising in the face of declining net migration. In October 2007, the vacancy rate increased to 1.5 per cent and is forecasted to rise to 2.5 per cent by October 2008. Renters are expected to have even more choice in 2009 as the average vacancy rate is forecasted to rise into the three per cent level.

There have not been any market rental starts in the Calgary CMA in 2008 and there will likely not be any significant supply of purpose built market rental apartments over the forecast period. However, this does not mean there is no new supply being added to the rental market. With a record number of condominium units being built in the Calgary CMA, it is estimated that over 20 per cent of these units have been bought by investors and that at completion these units will be made available for rent.

Another area of supply for renters is the secondary rental market of single and semi-detached units, row units, and suites. Originally built for homeownership, many of these dwelling types are finding their way into the rental market. CMHC's October 2007 survey estimated a total of 49,052 secondary rental units of this type. Furthermore, this type of secondary rental product is larger than the universe of purpose built apartment units.

When condominium prices were rising rapidly in 2006 and 2007, there was a large economic incentive to convert rental apartment units and sell them as homeowner condominium units. Given the current level of condominium supply in the market place, lower level of demand and price uncertainty, the number of rental conversions is expected to have peaked last year.

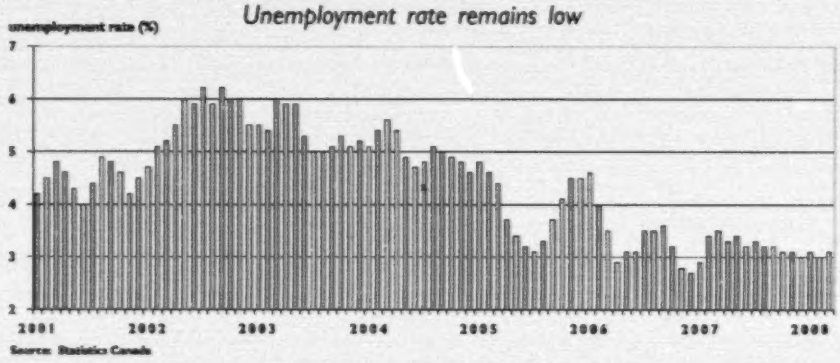
Overall, the rental market will be more balanced in 2008 than it was in 2007. In 2008, renters will likely not face escalating rents as property owners will want to maintain quality

tenants in an environment of rising vacancies. In October 2007, the CMHC rental market survey found the average two-bedroom rent to be $1,089 per month in the Calgary CMA, a $129 per month increase over the previous year. CMHC projects the average two-bedroom rent will be $1,140 per month by October 2008. With the vacancy rate moving up in 2009, rent growth will almost be flat as the average two-bedroom rent is forecasted to be $1,150 per month.

Figure 7

Calgary CMA – Labour Market

Unemployment rate remains low



ECONOMY

Unemployment Remains Low

The overall labour market in the Calgary CMA continued to be tight during the first quarter of 2008 as the unemployment rate hovered around three percent. In March, there were 680,400 people working in the Calgary CMA, up 2.7 per cent from a year earlier. However employment growth in the first quarter of 2008 has been marginal. After an astonishing 8.1 per cent employment gain in 2006, employment growth moderated to 3.9 per cent in 2007. A lower level of net migration impacted employment growth in 2007 and will continue impact job growth over the forecast period. In 2008, employment growth will moderate to 2.1 per cent as there will be fewer net migrants filling positions. The moderation in net migration will continue in 2009 and lower employment growth to two per cent. In March 2008, the seasonally adjusted participation rate stood at 75.7 per cent in the Calgary CMA. Unless this relatively high participation rate increases, gains in employment will continue to be largely supported by net migration gains.

Wages through the first three months of 2008 have averaged $947 per week, a gain of 7.1 per cent from the $884 average during the first quarter of 2007. Higher wages support growth in consumer spending and housing demand. Job creation and income growth are both positive signs for the economy. With wages currently growing faster than housing prices, housing affordability will likely increase during this year and bring in households that were previously priced-out of homeownership.

Non-Residential Construction Growth Rate Moderating

Investment in the Calgary CMA's non-residential construction sector accelerated in 2007. The year-over-year growth rate peaked at over 94 per cent in the second quarter of 2007 when EnCana's landmark building "The Bow" was recorded. Although the growth rate has decelerated since then, investment in the first quarter of 2008 was still 29 per cent higher than that of first quarter 2007. A high level of activity is expected to continue in 2008, albeit at a lower growth rate. First quarter investment amounted to $1.3 billion on a quarterly basis seasonally-adjusted. Investment in non-residential building construction will continue to help expand the economy beyond the forecast period of 2009.

Net Migration Estimated Lower

Inter-provincial migration flows estimated by Statistics Canada's for the second half of 2007 show Alberta experienced a net loss of 4,196 people to other provinces and territorial jurisdictions. The last time Alberta experienced two consecutive quarters of negative net inter-provincial migration was in 1994. Thankfully, Alberta is still gaining from international migration and this has outweighed the recent inter-provin-

cial losses. Nevertheless, Alberta net migration in 2007 amounted to 43,242, down 47 per cent from the 81,480 net migrants in 2006. A key indicator of rapid household formation and housing demand is net migration and this has been weak since the second half of 2007 and explains some of the decrease in housing demand experienced in the Calgary CMA.

Net migration in the Calgary CMA is estimated to have reached 17,000 in 2007, roughly half the number of 2006. The growing economies in Saskatchewan and British Columbia are attracting people from Alberta's major centres and this will keep net migration close to current levels. In 2008, net migration in the Calgary CMA is forecasted to reach 16,500 and moderate further to 15,500 in 2009.

MORTGAGE RATE OUTLOOK

Mortgage rates will remain relatively flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

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Forecast Summary Calgary CMA Spring 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	31,569	33,027	32,176	26,000	-19.2	26,750	2.9
MLS® New Listings	39,821	44,725	54,202	62,000	14.4	56,000	-9.7
MLS® Average Price ($)	250,832	346,675	414,066	429,000	3.6	450,000	4.9
New Home Market							
Starts:							
Single-Detached	8,719	10,482	7,777	5,500	-29.3	5,600	1.8
Multiples	4,948	6,564	5,728	7,000	22.2	3,000	-57.1
Starts - Total	13,667	17,046	13,505	12,500	-7.4	8,600	-31.2
Average Price ($):							
Single-Detached	315,796	353,662	474,511	550,000	15.9	564,000	2.5
Median Price ($):							
Single-Detached	276,250	310,711	417,947	484,000	15.8	496,000	2.5
New Housing Price Index (% chg.)	7.0	43.6	16.2	2.5	-	3.5	-
Rental Market							
October Vacancy Rate (%)	1.6	0.5	1.5	2.5	-	3.0	-
Two-bedroom Average Rent (October) ($)	808	960	1,089	1,140	-	1,150	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-	6.97	-
Annual Employment Level	605,900	655,100	680,600	695,000	2.1	708,900	2.0
Employment Growth (%)	1.2	8.1	3.9	2.1	-	2.0	-
Unemployment rate (%)	3.9	3.2	3.2	3.3	-	3.4	-
Net Migration [1]	22,639	29,164	17,000	16,500	-2.9	15,500	-6.1

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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